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The impact of trade reforms on employment and wellbeing in Senegal

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Key messages

- The ECOWAS common external tariff policy can raise employment levels (particularly amongst women and young people) and improve household wellbeing in Senegal.
- The EU Economic Partnership Agreement is likely to lead to a contraction of the Senegalese economy and a drop in household wellbeing.
- To counteract the negative effects of the trade reforms, the Senegalese government needs to support productivity and competitiveness in key sectors of industry.

Recent trade reforms for ECOWAS countries

Despite economic growth in Senegal for several years, there has been little job creation and the quality of life has barely improved.

In 2011, over 46% of the total population, and 57% of the rural population, was living below the national poverty line. Unemployment amongst young people (ages 15 to 34) remains high, at over 13%. This is particularly problematic because the 15 to 34 age group represents around two thirds of the Senegalese population. As such, young people are particularly affected by economic policies that target local industries.

In 2014, West African countries negotiated an Economic Partnership Agreement (EPA) with the European Union, cutting tariffs on EU imports. At the start of 2015, the Economic Community of West African States (ECOWAS) adopted a common external tariff (CET) for imports from outside ECOWAS countries. Both agreements affect the level of competition that local businesses face and can be expected to have many and varied impacts on the Senegalese economy.

Analyzing the effects of these trade reforms on employment can help evaluate the impact the policies have on women and young people, groups which, as in many countries, face greater challenges to finding productive, formal employment.

Furthermore, lowering tariffs on EU imports could result in substantial shortfalls in government revenues, reducing the government's capacity for financing social assistance or employment creation programs. Lack of financing for such programs is likely to mean a deterioration in the country's levels of wellbeing.

As such, a team of local PEP researchers set out to evaluate the effects of the EPA and CET on youth employment, wellbeing, and government revenues in Senegal, as an ECOWAS country.

The team used a static Computable General Equilibrium (CGE) model to simulate the effects of the ECOWAS common external tariff, and the EU economic partnership agreement, looking in particular at the differences in impact between genders and rural versus urban populations.

Key findings

Analysis of the first scenario indicates that **the ECOWAS CET would have a number of advantages for Senegal including improved household wellbeing and more employment for young people and women**.

The researchers found that under the ECOWAS CET:

- GDP would rise by 1.7%
- Unemployment would decrease, on average, by 6.85%
- Subsistence and livestock farming, hunting, fishing and forestry would benefit most from the CET
    - In these industries, labor demand for women and young people would surpass that of men and people aged 35+

The ECOWAS CET would mean reduced production in the agro-industrial, leather and mining sectors, leading to fewer jobs in these areas. However, the positive effects on employment outweigh the negatives, with this policy stimulating employment amongst women and young people, whatever their education level. As such, household income increases for women and young people, giving them greater purchasing power and improving their living standards (Table 1).

Analysis of the EU EPA scenario indicates that the Senegalese economy would contract, leading to a deterioration in wellbeing.

The research team found that under the EPA:

- GDP would decrease by almost 3.9%
- Domestic production would decrease by more than 0.8% (even if some sectors were able to increase their output by expanding into international markets)
- Unemployment would increase on average by almost 14.5%
    - Young women would be hardest hit with their employment level dropping 2.7%

Table 1: Impact of the ECOWAS-CET on purchasing power and household incomes (%)

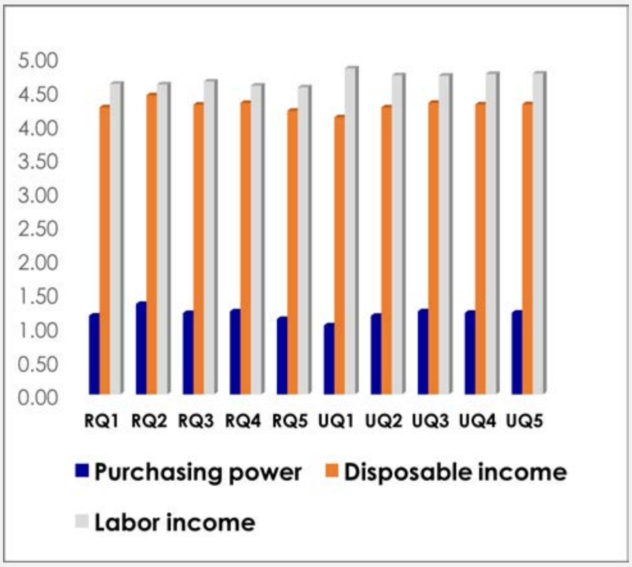
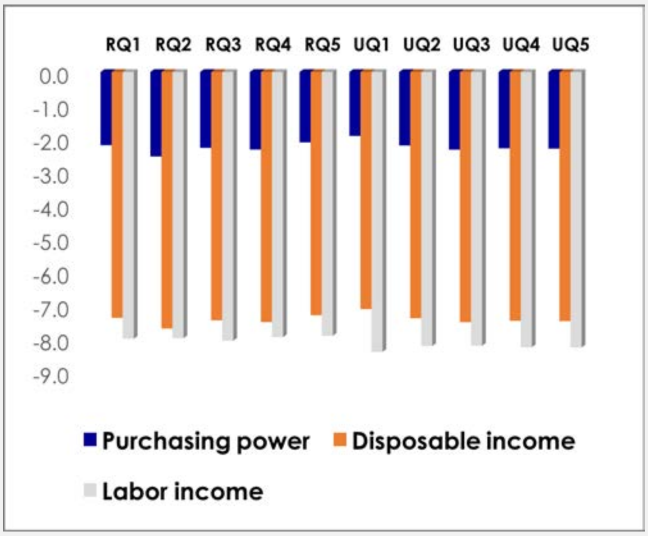


Table 2: Impact of the EPA on purchasing power and household incomes (%)



As household revenue decreases, household purchasing power would drop by nearly 2.3%, which in turn would lead to a reduction in household wellbeing (Table 2).

This analysis therefore indicates that the greatest risks to the Senegalese economy from the EPA trade reform, in particular, lie not only in the predicted shortfall in profits, but also in the lack of competitiveness in most of the country's economic sectors.

Implications for policy

The results of this study indicate that the Senegalese economy faces problems due to lower profits linked to a lack of competitiveness in many of the country's economic sectors. As such, **the research team strongly recommends that support policies be put in place so that direct action can be taken to improve the productivity and competitiveness of key economic sectors.** To this end, the Senegalese government should provide incentives to help modernize companies that will be particularly affected by the reforms.

As neither gender nor age were taken into account during the trade reform development process, it falls to the State to strengthen the mechanisms that can stimulate employment for young people and women. **The government can help improve the wellbeing of young workers and women through the creation of new opportunities and by facilitating access to training.**

The current support program, PAPED (French-language acronym for the EPA Program for Development) aims to stimulate growth and sustainable development in parallel with the implementation of the EPA. It will be important to empirically evaluate the program so that it may be modified, if necessary, to best meet its aims.

In 2012, with support of the UK Department for international Development (DfID) **and the International Development Research Centre** (IDRC) **of Canada, PEP launched a new program to support and build capacities in "Policy Analyses on Growth and Employment"** (PAGE) **in developing countries.**

This brief summarizes the outcomes of MPIA-12868 supported under the 3rd round of the PAGE initiative (2015-2016). To find out more about the research methods and findings, read the PEP working paper 2016-26.